

**BANK CREDIT, EXPORT AND ECONOMIC GROWTH IN THE ASEAN  
COUNTRIES: A COINTEGRATION AND ERROR CORRECTION  
ANALYSIS.**

A thesis submitted to the Graduate School in partial  
fulfillment of the requirements for the degree  
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by  
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## **Abstrak**

Tujuan utama kajian ini ialah menggunakan kaedah analisa ekonometrik untuk mengenalpasti secara empirikal sama ada wujudnya suatu hubungan keseimbangan jangka panjang diikuti dengan tindakan kesan penyebab di antara bank kredit (satu proxy bagi kemajuan kewangan), eksport dan pertumbuhan ekonomi untuk ASEAN 5 ahli ekonomi. Dapatan kajian ini menunjukkan terdapat satu hubungan keseimbangan jangka panjang dalam tempoh 31 tahun bagi multivariate model. Hasil kajian tersebut turut mendapati 'Granger-kausaliti sehalu' (atau unidirectional Granger-causality) dari kemajuan kewangan ke pertumbuhan ekonomi dan bukan sebaliknya bagi Malaysia, Singapura dan Thailand tetapi tidak terdapat sebarang bukti berlakunya 'kausaliti' di Indonesia dan Filipina. Oleh itu, kajian kita mengimplikasikan wujudnya satu corak 'supply-leading' di antara kedua-dua kemajuan kewangan – ekonomi, di mana kemajuan kewangan berlaku dahulu dan kemudian menginduksikan pertumbuhan ekonomi di negara sedang membangun. Kita juga merekod satu 'kausaliti' dari kemajuan kewangan ke pertumbuhan eksport di Thailand sahaja, bermakna perlaksanaan bantuan kewangan bagi eksport melalui program 'kredit terus' menggalakkan promosi eksport. Maka, dasar polisi yang member perhatian kepada polisi sektor kewangan awam, reformasi dan polisi struktur kewangan serta keyakinan kepada polisi kewangan berorientasikan pasaran terbuka adalah penting bagi memantapkan lagi kemajuan kewangan dan seterusnya pembangunan ekonomi.

### **Abstract**

The main thrust of this study is to deploy an econometric analysis to determine empirically the long run equilibrium relationship and its causal effects among bank credit (a proxy to financial development), real export and economic growth for ASEAN – 5 member economies. The empirical findings suggest the existence of a long run equilibrium relationship over a 31-year time period among the variables within the multivariate model. Subsequent analysis also found that there is a unidirectional Granger-causality from financial development to real economic growth but neither the reverse nor bidirectional among Malaysia, Singapore and Thailand while there is no evidence of causality whatsoever in Indonesia and Philippines. Such finding implies a pattern of ‘supply-leading’ phenomenon between financial – economic developments here; whereby financial development precedes and induces economic growth in developing economies. We also record causality running from financial development to real export growth in Thailand alone, indicating that export financing through directed credit programme encourages promotion of exports. Therefore, a stress on policy fundamentals giving particular attention pertaining to public financial sector policies, policy of financial reforms and restructuring as well as sustaining a level of confidence towards ‘market-oriented’ financial policy are crucially important in strengthening financial development and thereby economic growth.

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## **List of Abbreviations**

<b>ADF</b>	Augmented Dickey-Fuller
<b>AIC</b>	Akaike Information Criterion
<b>ASEAN</b>	Association of Southeast Asian Nations
<b>CE</b>	Cointegrating Equations
<b>D.W.<i>d-stats</i></b>	Durbin-Watson d-statistics
<b>EC<sub>t-1</sub></b>	A Once-Lagged Error Correction Term
<b>ECM</b>	Error Correction Model
<b>Eviews</b>	Econometric Views (a statistical package programme)
<b>IFS</b>	International Financial Statistics (published by IMF)
<b>IMF</b>	International Monetary Fund
<b>LDCs</b>	Less Developed Countries
<b>NIEs</b>	Newly Industrializing Economies
<b>PP</b>	Phillips-Perron
<b>RESET</b>	Regression Specification Error Test

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background of Study**

The pioneering contributions of Patrick (1966) and Goldsmith (1969) in studying the relationship between financial development and economic growth remained an important field in development literature. Numerous studies have dealt with different aspects of this relationship from both the theoretical and empirical levels. At the most fundamental level, studies have attempted to analyze the strength of this relationship and to establish whether financial deepening leads to an improvement in growth performance.

The empirical work formulated by McKinnon (1973) and Shaw (1973) and extended further by subsequent researchers <sup>(1)</sup> asserted that the development of financial sector should have positive repercussions on long run real growth performance. The main policy implication of this school of thought is that

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<sup>(1)</sup> See Fry (1982, 1997); Jung (1986); Greenwood and Jovanovic (1990); Bencivenga and Smith (1991); Pagano (1993); King and Levine (1993); DeGregorio and Guidotti (1995); Demetriades and Hussein (1996); Odedokun (1996); Arestis and Demetriades (1997).

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